

**REPORT OF THE AUDIT OF THE  
BATH COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BATH COUNTY FISCAL COURT**

**June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Bath County Fiscal Court for the fiscal year ended June 30, 2005.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information of Bath County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of 1,827,935 as of June 30, 2005. The fiscal court had unrestricted net assets of \$41,509 in its governmental activities as of June 30, 2005. The fiscal court had total debt principal as of June 30, 2005 of \$413,870 with \$165,269 due within the next year.

#### **Report Comments:**

- Federal Emergency Management Agency (FEMA) Administrative Fees Totaling \$8,558 Paid To County Employees Should Be Included On W-2's
- FEMA Overtime Payments Totaling \$9,000 Were Not Properly Documented Or Approved By Fiscal Court
- Bath County Fiscal Court's Depreciation Reserve Fund Is Under Funded By \$12,747
- A \$700 Dinner For County Employees Was Not Approved By Fiscal Court
- Bath County Fiscal Court Should Repay The Outstanding \$100,000 Bank Loan
- Emergency Budget Amendments Should Be Used Only When Necessary And Properly Obtained
- Bath County Fiscal Court Should Not Pay Bonuses To Its Employees
- Bath County Fiscal Court Should Maintain Time Records For All Employees
- The County Treasurer Is Required To Sign All Checks
- Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings
- Bath County Fiscal Court Minutes Failed To Disclose A \$5,000 Related Party Transaction
- Transfers From The Road Fund To The General Fund Exceeded The Approved Road Fund Cost Allocation Schedule By \$9,662
- Budget Line Items Were Overspent, Resulting In A Deficit Of \$12,974 In The Jail Fund
- The Treasurer Should Prepare And Publish An Annual Settlement In Accordance With KRS 424.220 And Maintain A List Of Individual Salaries
- Bath County Fiscal Court Should Implement Required Purchasing Procedures
- Bath County Fiscal Court Lacks Adequate Segregation of Duties
- Bath County Should Resolve The Federal Questioned Costs of \$20,786
- \$1,139,195 Of Federal Expenditures Were Not Approved By Fiscal Court



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bath County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bath County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky  
 Honorable Ernie Fletcher, Governor  
 Robbie Rudolph, Secretary  
 Finance and Administration Cabinet  
 Honorable Walter B. ShROUT, Bath County Judge/Executive  
 Members of the Bath County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bath County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2006 on our consideration of Bath County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- Federal Emergency Management Agency (FEMA) Administrative Fees Totaling \$8,558 Paid To County Employees Should Be Included On W-2's
- FEMA Overtime Payments Totaling \$9,000 Were Not Properly Documented Or Approved By Fiscal Court
- Bath County Fiscal Court's Depreciation Reserve Fund Is Under Funded By \$12,747
- A \$700 Dinner For County Employees Was Not Approved By Fiscal Court
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- Transfers From The Road Fund To The General Fund Exceeded The Approved Road Fund Cost Allocation Schedule By \$9,662
- Budget Line Items Were Overspent, Resulting In A Deficit Of \$12,974 In The Jail Fund
- The Treasurer Should Prepare And Publish An Annual Settlement In Accordance With KRS 424.220 And Maintain A List Of Individual Salaries



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- Bath County Fiscal Court Should Implement Required Purchasing Procedures
- Bath County Fiscal Court Lacks Adequate Segregation of Duties
- Bath County Should Resolve The Federal Questioned Costs of \$20,786
- \$1,139,195 Of Federal Expenditures Were Not Approved By Fiscal Court

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 13, 2006



## BATH COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

Walter Shrout	County Judge/Executive
Jimmy Cline	Commissioner
Billy Martin	Commissioner
E.H. Snedegar	Commissioner

### **Other Elected Officials:**

Kim Hunt Price	County Attorney
Palmer Crouch	Jailer
Glen Thomas	County Clerk
Nancy Crouch	Circuit Court Clerk
Randall Armitage	Sheriff
Paul Goodpaster	Property Valuation Administrator
Robert Powell	Coroner

### **Appointed Personnel:**

Myra Toy	County Treasurer
Eugene Swartz	Road Supervisor
Rickie Faudere	911 Administrator

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**BATH COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**BATH COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 206,778
Total Current Assets	<u>206,778</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	85,000
Land and Land Improvements	24,968
Buildings	1,481,302
Vehicles	63,660
Equipment	241,753
Infrastructure Assets - Net of Depreciation	<u>138,344</u>
Total Noncurrent Assets	<u>2,035,027</u>
Total Assets	<u>2,241,805</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bond Payable	29,000
Financing Obligations	<u>136,269</u>
Total Current Liabilities	<u>165,269</u>
Noncurrent Liabilities:	
Bond Payable	97,000
Financing Obligations	<u>151,601</u>
Total Noncurrent Liabilities	<u>248,601</u>
Total Liabilities	<u>413,870</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,721,157
Unrestricted	<u>106,778</u>
Total Net Assets	<u><u>\$ 1,827,935</u></u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**



**BATH COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

<b>Functions/Programs Reporting Entity</b>				<b>Net (Expenses) Revenues and Changes in Net Assets</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
Governmental Activities:				
General Government	\$ 663,534	\$ 85,651	\$ 1,185,525	\$ 607,642
Protection to Persons and Property	535,712		95,703	(440,009)
General Health and Sanitation	1,085,557			(1,085,557)
Social Services	20,508			(20,508)
Recreation and Culture	37,394			(37,394)
Roads	794,334		896,633	102,299
Bus Services	11,712			(11,712)
Interest on Long-term Debt	3,533			(3,533)
Capital Projects	57,211			(57,211)
Total Governmental Activities	<u>\$ 3,209,495</u>	<u>\$ 85,651</u>	<u>\$ 2,177,861</u>	<u>(945,983)</u>

**General Revenues:**

Taxes:	
Real Property Taxes	220,386
Personal Property Taxes	10,711
Motor Vehicle Taxes	70,073
Other Taxes	61,929
In Lieu Of Tax Payments	19,445
Excess Fees	55,268
Unrestricted Investment Earnings	7,518
Gain on Sale of Capital Asset	72,891
Miscellaneous Revenues	228,463
Total General Revenues	<u>746,684</u>
Change in Net Assets	(199,299)
Net Assets - Beginning	<u>2,027,234</u>
Net Assets - Ending	<u>\$ 1,827,935</u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**



**BATH COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 148,132	\$ 19,880	\$ 38,766	\$ 206,778
Total Assets	<u>\$ 148,132</u>	<u>\$ 19,880</u>	<u>\$ 38,766</u>	<u>\$ 206,778</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Short-Term Financing Obligation	\$ 100,000	\$	\$	\$ 100,000
Total Liabilities	<u>100,000</u>	<u></u>	<u></u>	<u>100,000</u>

**FUND BALANCES**

Unreserved:				
General Fund	48,132			48,132
Special Revenue Funds		19,880	3,961	23,841
Debt Service Fund			34,805	34,805
Total Fund Balances	<u>\$ 48,132</u>	<u>\$ 19,880</u>	<u>\$ 38,766</u>	<u>\$ 106,778</u>
Total Liabilities and Fund Balances	<u>\$ 148,132</u>	<u>\$ 19,880</u>	<u>\$ 38,766</u>	<u>\$ 206,778</u>

**Reconciliation of the Balance Sheet - Governmental  
Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 106,778
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	2,646,027
Accumulated Depreciation	(611,000)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonded Debt	(126,000)
Financing Obligations	<u>(187,870)</u>
Net Assets of Governmental Activities	<u>\$ 1,827,935</u>

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**BATH COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**BATH COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 363,099	\$	\$	\$ 363,099
In Lieu Tax Payments		19,445		19,445
Excess Fees	55,268			55,268
Licenses and Permits	67,138			67,138
Intergovernmental	1,134,036	858,238	185,587	2,177,861
Charges for Services	18,513			18,513
Miscellaneous	68,914	6,000	153,549	228,463
Interest	2,988	2,159	2,371	7,518
Total Revenues	<u>1,709,956</u>	<u>885,842</u>	<u>341,507</u>	<u>2,937,305</u>
<b>EXPENDITURES</b>				
General Government	355,131			355,131
Protection to Persons and Property	100,570		413,776	514,346
General Health and Sanitation	1,084,452			1,084,452
Social Services	20,508			20,508
Recreation and Culture	36,777			36,777
Roads		592,483	18,084	610,567
Bus Services			11,712	11,712
Debt Service	5,392		461,082	466,474
Capital Projects			57,211	57,211
Administration	276,082	155,495	18,080	449,657
Total Expenditures	<u>1,878,912</u>	<u>747,978</u>	<u>979,945</u>	<u>3,606,835</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(168,956)</u>	<u>137,864</u>	<u>(638,438)</u>	<u>(669,530)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Asset			400,000	400,000
Transfers from Other Funds	347,928	115,100	225,919	688,947
Transfers to Other Funds	(326,600)	(362,347)		(688,947)
Total Other Financing Sources (Uses)	<u>21,328</u>	<u>(247,247)</u>	<u>625,919</u>	<u>400,000</u>
Net Change in Fund Balances	(147,628)	(109,383)	(12,519)	(269,530)
Fund Balances - Beginning	195,760	129,263	51,285	376,308
Fund Balances - Ending	<u>\$ 48,132</u>	<u>\$ 19,880</u>	<u>\$ 38,766</u>	<u>\$ 106,778</u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**BATH COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds	\$ (269,530)
<p>Amounts Reported for Governmental Activities in the Statement of Activities            Are Different Because Governmental Funds Report Capital Outlays as            Expenditures. However, in the Statement of Activities the Cost of those Assets Are            Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	11,000
Depreciation Expense	(76,601)
Assets Disposed of, Net Book Value	(327,109)
<p>Lease and Bond Principal Payments Are Expensed in the Governmental Funds            as a Use of Current Financial Resources.</p>	
Bond Principal Payments	28,000
Financing Obligations Principal Payment	<u>434,941</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (199,299)</u></u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Bath County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

**Blended Component Unit**

**Bath County Building Commission**

The Building Commission is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Building Commission's governing body consists entirely of Fiscal Court members. Therefore management must include the Building Commission as a component unit, and the Building Commission's financial activity has been blended with that of the Fiscal Court.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Bath County Elected Officials Not Part of Bath County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Bath County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bath County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major. Bath County reports only governmental funds.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Depreciation Reserve Fund - This interest-bearing fund will be used to make the final debt service payment on the annex facility debt.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Forest Fire Protection Fund, Dispatch 911 Fund, and Building Commission Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forest Fire Protection Fund, and Dispatch 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Funds:**

The Building Commission Fund and Depreciation Reserve Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale on April 30 following the delinquency date.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Only the current year's infrastructure was reported.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10 - 60
Buildings and Building Improvements	\$ 25,000	10 - 75
Machinery and Equipment	\$ 2,500	3 - 25
Vehicles	\$ 2,500	5 - 10
Infrastructure	\$ 20,000	5 - 50

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt, and other long-term obligations, are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balance may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office for Local Development does not require the Building Commission Fund to be budgeted. However, the Bath County Fiscal Court has budgeted this fund to account for bond indentures and other relevant contractual provisions requiring specific payments to and from this fund annually.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits**

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government as beneficiary/obligee on the bond.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposit may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,493	\$ 5,000	\$	\$ 8,493
Construction in Progress	85,000			85,000
Total Capital Assets Not Being Depreciated	88,493	5,000		93,493
Capital Assets, Being Depreciated:				
Land Improvements	48,200			48,200
Buildings	2,171,879		(338,623)	1,833,256
Vehicles	160,000	6,000		166,000
Equipment	338,398			338,398
Infrastructure	166,680			166,680
Total Capital Assets Being Depreciated	2,885,157	6,000	(338,623)	2,552,534
Less Accumulated Depreciation for:				
Land Improvements	(29,963)	(1,762)		(31,725)
Buildings	(340,675)	(22,793)	11,514	(351,954)
Vehicles	(88,315)	(14,025)		(102,340)
Equipment	(72,792)	(23,853)		(96,645)
Infrastructure	(14,168)	(14,168)		(28,336)
Total Accumulated Depreciation	(545,913)	(76,601)	11,514	(611,000)
Total Capital Assets, Being Depreciated, Net	2,339,244	(70,601)	(327,109)	1,941,534
Governmental Activities Capital Assets, Net	\$ 2,427,737	\$ (65,601)	\$ (327,109)	\$ 2,035,027

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 23,675
Protection to Persons and Property	16,932
General Health and Sanitation	1,105
Recreation and Culture	617
Roads, Including Depreciation of General Infrastructure Assets	34,272
Total Depreciation Expense - Governmental Activities	<u>\$ 76,601</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Short-term Debt**

**A. Financing Obligations, Bank Note**

On April 26, 2005, the Bath County Fiscal Court received loan proceeds in the amount of \$100,000 from Salt Lick Deposit Bank. The proceeds were used to meet payroll obligations, including health insurance and other withholdings. The promissory note was to mature on June 30, 2005. As of June 30, 2005, \$100,000 in principal is still outstanding.

**B. Changes in Short-term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 0	\$ 100,000	\$ 0	\$ 100,000	\$ 100,000
Governmental Activities					
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

**Note 5. Long-term Debt**

**A. First Mortgage Refunding Revenue Bonds, Series 1981**

On January 1, 1981, the Bath County Building Commission issued \$530,000 of revenue bonds for the purpose of courthouse annex renovation. The bonds require that an annual interest and principal payment be made on January 1 of each year, commencing January 1, 1981. The bonds will mature January 1, 2009. As of June 30, 2005, the principal amount outstanding was \$126,000. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 29,000	6,300
2007	31,000	4,850
2008	32,000	3,300
2009	34,000	1,700
Totals	<u>\$ 126,000</u>	<u>\$ 16,150</u>

**B. Financing Obligation**

On September 25, 2003, the Bath County Building Commission received loan proceeds in the amount of \$400,000 from USDA Rural Development to purchase a building and to purchase a trailer to house Dispatch/911 operations. On November 30, 2004, the debt was re-assigned to Gateway Community Services (GCS) for the purchase of the health department building in the amount of \$400,000. Re-assignment of the loan to GCS gave full title to the purchased trailer which houses Dispatch/911 operations.



**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Financing Obligations, Voting Machines**

On September 29, 1997, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase voting machines. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on October 29, 2007. As of June 30, 2005, the principal amount outstanding was \$12,084. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 5,047	\$ 290
2007	5,244	138
2008	1,793	11
Totals	<u>\$ 12,084</u>	<u>\$ 439</u>

**D. Financing Obligations, Caterpillar Motor Grader**

On March 1, 2003, the Bath County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation to lease a Caterpillar Motor Grader for \$134,702. The agreement requires 72 monthly payments at a 4% interest rate to be paid in full on February 28, 2009. As of June 30, 2005, the principal amount outstanding was \$85,963. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 22,210	\$ 2,995
2007	23,115	2,090
2008	24,057	1,148
2009	16,581	224
Totals	<u>\$ 85,963</u>	<u>\$ 6,457</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**E. Financing Obligations, Emergency Response Equipment**

On March 31, 2004, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase emergency response equipment for \$100,000. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on April 20, 2014. As of June 30, 2005, the principal amount outstanding was \$89,823. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 9,012	\$ 2,616
2007	9,288	2,349
2008	9,571	2,077
2009	9,863	1,794
2010	10,165	1,504
2011-2014	41,924	2,907
Totals	<u>\$ 89,823</u>	<u>\$ 13,247</u>

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 154,000	\$	\$ 28,000	\$ 126,000	\$ 29,000
Financing Obligations	622,811		434,941	187,870	36,269
Governmental Activities					
Long-term Liabilities	<u>\$ 776,811</u>	<u>\$ 0</u>	<u>\$ 462,941</u>	<u>\$ 313,870</u>	<u>\$ 65,269</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2005, Bath County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Related Party Transactions**

In April 2005, the Fiscal Court purchased a lot for \$5,000 in the Olympia community from Danny and Ann Lykes for the purpose of building a polling place. Ann Lykes is an employee of the county.

In FY 2005, the Fiscal Court paid \$7,900 to Terry Cline for mowing. Terry Cline is the brother of Commissioner Jimmy Cline.

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**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 322,000	\$ 322,000	\$ 363,099	\$ 41,099
Excess Fees	40,000	55,268	55,268	0
Licenses and Permits	57,000	57,000	67,138	10,138
Intergovernmental Revenue	1,057,340	1,066,896	1,134,036	67,140
Charges for Services	15,000	15,000	18,513	3,513
Miscellaneous	51,100	84,506	68,914	(15,592)
Interest	10,000	10,000	2,988	(7,012)
Total Revenues	<u>1,552,440</u>	<u>1,610,670</u>	<u>1,709,956</u>	<u>99,286</u>
<b>EXPENDITURES</b>				
General Government	328,370	356,056	355,131	925
Protection to Persons and Property	79,030	86,601	100,570	(13,969)
General Health and Sanitation	945,340	959,108	1,084,452	(125,344)
Social Services	12,800	20,529	20,508	21
Recreation and Culture	26,500	36,777	36,777	0
Debt Service	5,465	5,465	5,392	73
Administration	202,618	293,817	276,082	17,735
Total Expenditures	<u>1,600,123</u>	<u>1,758,353</u>	<u>1,878,912</u>	<u>(120,559)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(47,683)</u>	<u>(147,683)</u>	<u>(168,956)</u>	<u>(21,273)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	0	100,000	100,000	0
Transfers from Other Funds	131,038	131,038	347,928	216,890
Transfers to Other Funds	<u>(211,354)</u>	<u>(211,354)</u>	<u>(326,600)</u>	<u>(115,246)</u>
Total Other Financing Sources (Uses)	<u>(80,316)</u>	<u>19,684</u>	<u>121,328</u>	<u>101,644</u>
Net Changes in Fund Balance	(127,999)	(127,999)	(47,628)	80,371
Fund Balance - Beginning	<u>127,999</u>	<u>127,999</u>	<u>195,760</u>	<u>67,761</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 148,132</u>	<u>\$ 148,132</u>

**Reconciliation of the Budgetary Comparison Schedule to  
Statement of Revenues, Expenditures, and Changes in Fund Balance**

Fund Balance - Ending	\$ 148,132
Short-term debt financing not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	
Proceeds from short-term debt financing	<u>(100,000)</u>
Fun Balance - Ending	<u>\$ 48,132</u>

**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 808,200	\$ 808,200	\$ 858,238	\$ 50,038
In Lieu Tax Payments	20,000	20,000	19,445	(555)
Miscellaneous	10,000	10,000	6,000	(4,000)
Interest	10,000	10,000	2,159	(7,841)
Total Revenues	848,200	848,200	885,842	37,642
<b>EXPENDITURES</b>				
Roads	716,760	704,522	592,483	112,039
Administration	163,500	175,738	155,495	20,243
Total Expenditures	880,260	880,260	747,978	132,282
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(32,060)	(32,060)	137,864	169,924
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds			115,100	115,100
Transfers to Other Funds	(131,038)	(131,038)	(362,347)	(231,309)
Total Other Financing Sources (Uses)	(131,038)	(131,038)	(247,247)	(116,209)
Net Changes in Fund Balance	(163,098)	(163,098)	(109,383)	53,715
Fund Balance - Beginning	163,098	163,098	129,263	(33,835)
Fund Balance - Ending	\$ 0	\$ 0	\$ 19,880	\$ 19,880



**BATH COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BATH COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**

**BATH COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Dispatch 911 Fund</b>	<b>Building Commission Fund</b>	<b>Depreciation Reserve Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ (12,974)	\$ 10,199	\$ 6,736	\$ 11,552	\$ 23,253
Total Assets	<u>\$ (12,974)</u>	<u>\$ 10,199</u>	<u>\$ 6,736</u>	<u>\$ 11,552</u>	<u>\$ 23,253</u>
<b>FUND BALANCES</b>					
Unreserved:					
Special Revenue Funds	\$ (12,974)	\$ 10,199	\$ 6,736	\$ 11,552	\$ 23,253
Total Fund Balances	<u>\$ (12,974)</u>	<u>\$ 10,199</u>	<u>\$ 6,736</u>	<u>\$ 11,552</u>	<u>\$ 23,253</u>

**BATH COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**

**Total  
Non-Major  
Governmental  
Funds**

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\$ 38,766

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\$ 38,766

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\$ 38,766

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\$ 38,766

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**BATH COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**BATH COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Dispatch 911 Fund</b>	<b>Building Commission Fund</b>
<b>REVENUES</b>				
Intergovernmental	\$ 61,208	\$ 38,395	\$	\$ 85,984
Miscellaneous	1,433		152,116	
Interest	236	447	162	495
Total Revenues	<u>62,877</u>	<u>38,842</u>	<u>152,278</u>	<u>86,479</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	284,847		128,929	
Roads		18,084		
Bus Services		11,712		
Debt Service			11,582	449,500
Capital Projects				57,211
Administration	4,434		13,646	
Total Expenditures	<u>289,281</u>	<u>29,796</u>	<u>154,157</u>	<u>506,711</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(226,404)</u>	<u>9,046</u>	<u>(1,879)</u>	<u>(420,232)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	212,000		6,500	30,000
Proceeds from Sale of Capital Asset				400,000
Total Other Financing Sources (Uses)	<u>212,000</u>	<u>0</u>	<u>6,500</u>	<u>430,000</u>
Net Change in Fund Balances	(14,404)	9,046	4,621	9,768
Fund Balances - Beginning	1,430	1,153	2,115	1,784
Fund Balances - Ending	<u>\$ (12,974)</u>	<u>\$ 10,199</u>	<u>\$ 6,736</u>	<u>\$ 11,552</u>



**BATH COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

<b>Depreciation Reserve Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$ 185,587
	153,549
1,031	2,371
1,031	341,507
	413,776
	18,084
	11,712
	461,082
	57,211
	18,080
0	979,945
1,031	(638,438)
(22,581)	225,919
	400,000
(22,581)	625,919
(21,550)	(12,519)
44,803	51,285
\$ 23,253	\$ 38,766

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**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2005**



**BATH COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2005**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of the financial statements of Bath County, Kentucky.
2. Two reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Fifteen instances of noncompliance material to the financial statements of Bath County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bath County expresses an unqualified opinion.
6. There were two audit findings relative to the major federal awards programs for Bath County reported in Part C of this schedule.
7. The programs tested as major programs were: Congressionally Identified Awards and Projects, CFDA #11.469 and Section 531 Program – Preston Sewer Project, CFDA #12.N/A.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bath County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**NONCOMPLIANCES:**

**Reference 2005-1**

Federal Emergency Management Agency (FEMA) Administrative Fees Totaling \$8,558 Paid To County Employees Should Be Included On W-2's

Administrative fees of \$8,558 paid to county employees for FEMA projects were not included on the employees W-2s for calendar year 2004. The amounts paid were included on 1099s for the employees. Since the administrative fees were paid to employees of the county, those wages should have the proper withholdings deducted and be included on their W-2s. A person cannot be both an employee and contract labor for the same employer at the same time. We recommend administrative fees paid to county employees be included on their W-2s in the future.

*County Judge/Executive Walter B. ShROUT's Response:*

*In 2005 all of the problems in question were resolved.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-2**

FEMA Overtime Payments Totaling \$9,000 Were Not Properly Documented Or Approved By Fiscal Court

The Judge/Executive's Secretary and the Emergency Management Director both received payments for overtime FEMA work for the years of 2001-2004. The payments totaled \$9,000 and were paid from FEMA funds left over after all the projects were completed. These payments were in addition to FEMA administrative fees that had already been paid to these same individuals. The overtime expenditures were not submitted to or approved by fiscal court and did not have any supporting documentation, such as timesheets, since these employees do not maintain timesheets. We recommend the County Judge/Executive consult with the County Attorney to determine what action needs to be taken to resolve the compliance issues surrounding these payments.

*County Judge/Executive Walter B. Shrout's Response:*

*When I came into office in 2003, the FEMA agents hadn't been properly paid. This money was earned and justified. I spoke with Barbara Brown with FEMA in regard to the payment of these people in question.*

**Reference 2005-3**

Bath County Fiscal Court's Depreciation Reserve Fund Is Under Funded \$12,747

The Depreciation Reserve account is a separate and special account set up to protect bondholders by requiring the bond issuer to maintain a balance equal to the annual debt service payable on the bonds. The bond ordinance states \$36,000 should be maintained in the reserve account. Bath County's Depreciation Reserve account was fully funded at \$36,000 in 1989, and accumulated to over \$45,000 in March 2005. On March 10, 2005, a \$22,581 transfer was made from the Depreciation Reserve Fund to the Pride bank account. This money was used to reimburse the Pride account for repair work on the courthouse annex. After this transfer was made, the Depreciation Reserve Fund had a balance of \$22,981. The Depreciation Reserve account earned additional interest of \$272, leaving the account under funded by \$12,747 as of June 30, 2005. We recommend the fiscal court take appropriate measures to return the Depreciation Reserve Fund to the required funding level and notify the Governor's Office for Local Development (GOLD) when this matter is resolved.

*County Judge/Executive Walter B. Shrout's Response:*

*This money was used to make needed repairs to the courthouse annex. This money will be returned to the depreciation reserve fund as soon as possible.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-4**

A \$700 Dinner For County Employees Was Not Approved By Fiscal Court

County employees were treated to a Christmas dinner in December 2004 at a local restaurant. The cost of the dinner was \$700 and was paid for from the fiscal court's general fund. The expenditure was not submitted to or approved by fiscal court. However, even if the fiscal court had approved this expenditure, it still would not be an appropriate use of county funds. We recommend the County Judge/Executive consult with the County Attorney to determine what action needs to be taken to resolve the compliance issues surrounding this payment and notify GOLD on the resolution of this matter.

*County Judge/Executive Walter B. Shrout's Response:*

*I, Walter Shrout, will personally refund the county \$700 for the December 2004 Christmas dinner.*

**Reference 2005-5**

Bath County Fiscal Court Should Repay The Outstanding \$100,000 Bank Loan

On April 26, 2005, Bath County borrowed \$100,000 for general operations and was unable to repay it by June 30, 2005, as is required by KRS 65.7707. The fiscal court's initial FY 2005-2006 proposed budget was inadequate to address their financial situation and it was not initially approved. GOLD approved the fiscal court's budget at a special called meeting on June 30, 2005, contingent on the fiscal court agreeing to do whatever is necessary to retire the \$100,000 outstanding bank loan and agreeing not to operate at a deficit in FY 2005-2006. This agreement was approved via court order and is recorded in the minutes. As of the audit date, the \$100,000 bank loan is still outstanding and no payments have been made. We recommend the county take appropriate action to repay this outstanding loan as soon as possible so that it does not create a problem in getting the FY 2006-2007 budget approved by GOLD.

*County Judge/Executive Walter B. Shrout's Response:*

*Every effort is being made to take care of this situation.*

**Reference 2005-6**

Emergency Budget Amendments Should Be Used Only When Necessary And Properly Obtained

On April 26, 2005, Bath County received a \$100,000 bank loan. On May 10, 2005 the fiscal court minutes approved a \$100,000 budget amendment for this loan. The official document signed by the Judge/Executive was labeled as an emergency amendment, which allows the amendment to be obtained without approval of the State Local Finance Officer. However, to be an emergency amendment, the fiscal court has to declare an emergency to exist by naming and describing the emergency. The fiscal court minutes did not name or describe an emergency. In addition, the bank loan had already been received prior to the amendment being signed by the County Judge/Executive. We recommend the fiscal court only use emergency budget amendments when there is an actual named emergency in the county.

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-6 (Continued)**

*County Judge/Executive Walter B. Shrout's Response:*

*I'm sorry about this mix up. I thought I had done everything in the proper way. I will follow the proper procedures in the future.*

**Reference 2005-7**

Bath County Fiscal Court Should Not Pay Bonuses To Its Employees

When reviewing the general ledger, it was noticed that one December payroll was always higher for county employees. Through inquiry, these were deemed to be bonuses. Even though these bonuses were immaterial, pursuant to Section 3 of the Kentucky Constitution, there should be "no bonuses." We recommend the Fiscal Court stop the practice of paying bonuses to its employees.

*County Judge/Executive Walter B. Shrout's Response:*

*This was not a bonus, it was a one time lump sum salary adjustment.*

**Reference 2005-8**

Bath County Fiscal Court Should Maintain Time Records For All Employees

Timesheets were not maintained for the County Treasurer, Road Supervisor, Solid Waste Coordinator, Judge's Secretary and other salaried employees. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee. Timesheets are also necessary to document eligibility for employee benefits such as retirement and overtime. Timesheets should be kept for payroll verification and as a record of leave time earned and used. The employee and the appropriate supervisor should review and sign all timesheets. We recommend the county maintain time records properly for all employees.

*County Judge/Executive Walter B. Shrout's Response:*

*Being a new Judge, I have followed many procedures the same way they were done in the past. I will take care of this matter.*



**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-9**

The County Treasurer Is Required To Sign All Checks

The County Treasurer did not sign all FEMA checks. The Fiscal Court approved the Judge's Secretary to sign in the Treasurer's place for the FEMA account. However, KRS 68.020(1) states, "All warrants for the payments from the county treasury shall be co-signed by the county treasurer and the county judge/executive." There is no exception to this KRS even if the Fiscal Court voted to allow someone to sign in place of the Treasurer. We recommend the Treasurer sign all checks along with the Judge/Executive.

*County Judge/Executive Walter B. Shrout's Response:*

*I am sorry for this mistake, it will not happen again.*

**Reference 2005-10**

Expenditures Should Have Proper Documentation And Meet Compliance Requirements

KRS 65.140(2) requires expenditures to be paid in full within 30 working days of receiving vendor invoices. Of the 23 expenditures tested, 8 were not paid within 30 days. In addition KRS 68.275(2) requires the county judge/executive to present all claims to fiscal court for review prior to payment. Of the 23 expenditures tested, 17 expenditures totaling \$476,739 were not approved and properly recorded in the fiscal court minute book. One of the 23 tested expenditures was in excess of the budgeted line item amount. And one expenditure of \$24,725 did not have the supporting documentation. We recommend the Treasurer and County Judge/Executive prepare, review and submit an accurate claims list to the fiscal court each month; pay all expenditures within 30 days unless the item is tabled for review by the fiscal court and recorded in the minutes; do not approve payments for amounts in excess of the budgeted line items without making the appropriate transfers; and maintain all supporting documentation for expenditures.

*County Judge/Executive Walter B. Shrout's Response:*

*This was an honest mistake. My Treasurer included these bills even if she had not received money from different agencies who were reimbursing the county to pay them.*

**Reference 2005-11**

Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Fiscal court minutes are not detailed enough to provide adequate information to the public. The fiscal court minutes need to accurately reflect what occurs during fiscal court meetings. The minutes need to include all bids submitted to fiscal court, a listing of all claims approved and paid, copies of all budgets and financial statements or other items presented and any other information that supports the actions taken by the fiscal court. Anyone looking for information about fiscal court meetings should be able to find it in the minutes. The absence of this supporting information prevents the public from knowing

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-11 (Continued)**

what actually occurred at the fiscal court meetings. We were often unable to verify information in the minutes because of the lack of detail and supporting schedules. Many of the questions we have with the minutes could have been avoided by simply attaching the amendments, budgets, ordinances, bids or any additional paperwork that was submitted to fiscal court. We recommend that the fiscal court minutes contain any information necessary to support the actions taken by the Fiscal Court and consult with GOLD if any additional help is needed.

*County Judge/Executive Walter B. ShROUT's Response:*

*I have and will again talk to the Fiscal Court Clerk about making the minutes more detailed.*

**Reference 2005-12**

Bath County Fiscal Court Minutes Failed To Disclose A \$5,000 Related Party Transaction

In April 2005, the fiscal court purchased a lot in the Olympia area to be used as a voting site. The February fiscal court meeting minutes indicate the county planned to purchase an undisclosed lot in the Olympia area, with no amount specified listed. When the actual purchase took place over a month later, there was no mention of it in the minutes, nor was it on the claims list. As it turns out, the property was purchased from the Judge's Secretary and her husband for \$5,000, which is a related party transaction that would need to be disclosed. This transaction should have been clearly disclosed in the minutes and approved by fiscal court. We recommend that all property purchases be approved at the fiscal court meetings and the all related party transactions be disclosed to the public.

*County Judge/Executive Walter B. ShROUT's Response:*

*The lot that was bought was the best available and it was on the claims list.*

**Reference 2005-13**

Transfers From The Road Fund To The General Fund Exceeded The Approved Road Fund Cost Allocation Schedule By \$9,662

Bath County received approval from GOLD to use \$131,038 of restricted road funds for General fund expenses, such as administration. This was approved and recorded in an attachment to the budget called the Road Fund Cost Allocation Schedule. The Road Fund made several transfers to the General Fund and the General Fund returned some funds to the Road Fund. The end result were transfers from the Road Fund to the General Fund \$9,662 in excess of the amount approved on GOLD's cost allocation schedule. We recommend the \$9,662 be returned to the Road Fund to reimburse for the use of the restricted road funds and in the future, do not go over the approved road fund cost allocation schedule amounts.

*County Judge/Executive Walter B. ShROUT's Response:*

*This money will be transferred back to the road fund as soon as possible.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference 2005-14**

Budget Line Items Were Overspent, Resulting In A Deficit Of \$12,974 In The Jail Fund

The Jail Fund overspent the line item Contracts With Other Counties by \$41,963, which contributed to the Jail Fund deficit of \$12,974 as of June 30, 2005. The Dispatch/911 Fund also had various line items overspent by \$16,593. This did not cause the Dispatch/911 Fund to be in a deficit at the end of the year. KRS 68.300 states that expenditures in excess of budget fund are void and illegal. General Fund transfers can be made to cover deficit balances in other funds. However, when the budget appropriations are depleted, transfers in would keep the fund out of a deficit, but not keep line items from being overspent. We recommend the Treasurer contact GOLD for guidance on how to move budget appropriations between funds without increasing the overall budget. We further recommend no expenditures in excess of the budget be made, in order to comply with KRS 68.300.

*County Judge/Executive Walter B. ShROUT's Response:*

*We will seek information from GOLD in the future to help correct this problem.*

**Reference 2005-15**

The Treasurer Should Prepare And Publish An Annual Settlement In Accordance With KRS 424.220 And Maintain A List Of Individual Salaries

The Treasurer's annual settlement was not prepared or published. KRS 424.220 requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year. The annual settlement is required to show the total amount collected and received from each individual source, and the total amount of funds disbursed to each individual payee and the purpose for which expended (the amount of salaries paid to all non-elected county employees can be shown as lump sum expenditures by category). The annual settlement must also have attached a certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year showing the balance of funds. The financial statement must be published within sixty days following the end of the fiscal year. We recommend the county prepare and publish an annual settlement in the future.

*County Judge/Executive Walter B. ShROUT's Response:*

*We will take care of these problems in the future.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

REPORTABLE CONDITIONS:

**Reference 2005-16**

Bath County Fiscal Court Should Implement Required Purchasing Procedures

The fiscal court does not have purchasing procedures in place to meet the requirements of GOLD's State Local Finance Officer. The road fund is the only fund that uses a purchase order system. The following procedures need to be implemented for all funds to meet the requirements as prescribed by the State Local Finance Officer:

- Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a Department Head
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary appropriation transfers have been made.
- Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive (or designee) who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.
- Once the purchase order system is in place, it should be easy to prepare a list of encumbrances and include the total on the quarterly reports.

*County Judge/Executive Walter B. Shrout's Response:*

*As of July 1, 2005, this process was put into place.*

**Reference 2005-17**

Bath County Fiscal Court Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. Furthermore, the Treasurer has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the following compensating controls be implemented to offset this internal control weakness:

- All expenditures should be approved by the fiscal court
- An independent person should list all receipts and agree them back to the Treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. Also, an independent person should complete bank reconciliations or review the Treasurer's bank reconciliations for accuracy. The person doing the bank reconciliation can document this by initialing.
- Receipt and disbursement ledger pages should be footed and agreed to the Quarterly Reports

*County Judge/Executive Walter B. Shrout's Response:*

*We utilize the staff we can afford and do the best job we can.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**Reference 2005-18**

Bath County Should Resolve The Federal Questioned Costs Of \$20,786

Bath County Fiscal Court received federal funds from Eastern Kentucky Pride, Army Corp of Engineers, Environmental Protection Agency and Appalachian Regional Commission for the Preston Sewer Project. They also received \$150,000 of state funds through HB 502 passed by the 2000 General Assembly. The Gateway Area Development District (GADD) administered these funds on behalf of Bath County. The funds were not always properly accounted for, and GADD has determined \$20,768 of Preston Sewer Project money was spent on local solid waste projects during fiscal year 2005. It appears the questioned costs of \$20,768 pertain to the Section 531 Program, from the United States Department of Justice, Army Corp of Engineers or possibly the HB 502 money. However, the federal program administrators and Bath County should make the final determination, and as of the audit date, this is in process. We recommend Bath County work with the GADD and the federal agencies to determine how to resolve these questioned costs and to ensure compliance with the federal awarding agencies so that the Preston Sewer Project can be closed out properly.

*County Judge/Executive Walter B. Shrout's Response:*

*I will continue to work with GADD and all funding sources throughout the project closeout.*

**Reference 2005-19**

\$1,139,195 Of Federal Expenditures Were Not Approved By Fiscal Court

Our test of federal expenditures indicates \$1,139,195 of federal expenditures were not approved by fiscal court. A Project Committee consisting of the County Judge/Executive, a U.S Department of Rural Development representative, the contractor, the subcontractor, the engineer and the sanitation district chairperson reviewed and approved the Preston Sewer Project expenditures. This committee did not review or approve the \$20,768 of questioned costs made from the federal funds. Of the federal expenditures the Project Committee approved, they all appear to be for valid purposes and within the budget. However, we recommend that all federal expenditures be included on the claims list submitted to fiscal court for approval, along with the actual invoices.

*County Judge/Executive Walter B. Shrout's Response:*

*We have gotten these retroactively approved by the Fiscal Court.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

These comments were corrected and are not included in the current audit.

- The 4<sup>th</sup> Quarter Financial Statement Should Be Prepared Correctly
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Fiscal Court Should Adopt A Written Investment Policy
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards

These comments were not corrected and were repeated in the current audit.

- The County Should Maintain Time Records For All Employees
- The County Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures

**BATH COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Other Supplementary Information**





**BATH COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**Fiscal Year Ended June 30, 2005**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Commerce</u>		
Passed-Through USDA Rural Development: Congressionally Identified Awards and Projects - Preston Sewer Project (CFDA #11.469)	Not Available	\$ 300,000
 <u>U.S. Department of Justice</u>		
Direct Program: Section 531 Program - Preston Sewer Project (CFDA #12.N/A)	Not Available	606,147
 <u>U.S. Environmental Protection Agency</u>		
Passed-Through Gateway District Health Department: Section 319(h) Nonpoint Source Implementation Grant (CFDA #66.460)	M-002395540	151,301
 <u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Department of Military Affairs:		
Disaster and Emergency Assistance Grants - 2001 Severe Storms Flooding (CFDA #97.036)	FEMA-1388-DR	78,547
2003 Winter Storm (CFDA #97.036)	FEMA-1454-DR	<u>3,200</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,139,195</u>

**BATH COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2005**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bath County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 13, 2006. Bath County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bath County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Reference 2005-16

- Bath County Fiscal Court Should Implement Required Purchasing Procedures

Reference 2005-17

- Bath County Fiscal Court Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

Reference 2005-17

- The County Lacks Adequate Segregation Of Duties

Compliance

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Reference 2005-1

- Federal Emergency Management Agency (FEMA) Administrative Fees Totaling \$8,558 Paid To County Employees Should Be Included On W-2's

Reference 2005-2

- FEMA Overtime Payments Totaling \$9,000 Were Not Properly Documented Or Approved By Fiscal Court

Reference 2005-3

- Bath County Fiscal Court's Depreciation Reserve Fund Is Under Funded By \$12,747

Reference 2005-4

- A \$700 Dinner For County Employees Was Not Approved By Fiscal Court

Reference 2005-5

- Bath County Fiscal Court Should Repay The Outstanding \$100,000 Bank Loan

Reference 2005-6

- Emergency Budget Amendments Should Be Used Only When Necessary And Properly Obtained

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Reference 2005-7

- Bath County Fiscal Court Should Not Pay Bonuses To Its Employees

Reference 2005-8

- Bath County Fiscal Court Should Maintain Time Records For All Employees

Reference 2005-9

- The County Treasurer Is Required To Sign All Checks

Reference 2005-10

- Expenditures Should Have Proper Documentation And Meet Compliance Requirements

Reference 2005-11

- Bath County Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Reference 2005-12

- Bath County Fiscal Court Minutes Failed To Disclose A \$5,000 Related Party Transaction

Reference 2005-13

- Transfers From The Road Fund To The General Fund Exceeded The Approved Road Fund Cost Allocation Schedule By \$9,662

Reference 2005-14

- Budget Line Items Were Overspent, Resulting In A Deficit Of \$12,974 In The Jail Fund

Reference 2005-15

- The Treasurer Should Prepare And Publish An Annual Settlement In Accordance With KRS 424.220 And Maintain A List Of Individual Salaries

This report is intended solely for the information and use of Bath County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 13, 2006





**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bath County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Bath County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bath County's management. Our responsibility is to express an opinion on Bath County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bath County's compliance with those requirements.

In our opinion, Bath County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Bath County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bath County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the following matters involving the internal control over compliance and its operation that we consider to be material weaknesses:

Reference 2005-18

- Bath County Should Resolve The Federal Questioned Costs Of \$20,786

Reference 2005-19

- \$1,139,195 Of Federal Expenditures Were Not Approved By Fiscal Court

This report is intended solely for the information and use of Bath County Fiscal Court, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 13, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**BATH COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**





**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS**  
**BATH COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2005**

The Bath County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, reading "Walter B. Shrout", is written over a horizontal line.

**Walter B. Shrout**  
**Bath County Judge/Executive**

A handwritten signature in cursive script, reading "Myra Toy", is written over a horizontal line.

**Myra Toy**  
**Bath County Treasurer**